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AZ CORP COMMISSION
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June 19, 2006

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

Re: Docket No. W-00000C-06-0149

The following comments are submitted by Robson Communities, Inc. on behalf of the following entities Pima Utility Company (water & sewer), Picacho Water Company, Picacho Sewer Company, Santa Rosa Water Company, Santa Rosa Utility Company (sewer), Ridgeview Utility Company, Lago Del Oro Water Company, SaddleBrooke Utility Company (sewer), Mountain Pass Utility Company (sewer) and Quail Creek Water Company (collectively the " Robson-owned utilities":

1. The financing arrangements described in A, B, and C are essentially different methods to achieve the same result, which is to provide the utility the necessary funds to build the infrastructure needed to provide service to the developments. Even paramount to acquiring the funds is the utility's ability to recover the costs associated with the plant that is constructed using these funds. The utility needs to recover the costs associated with plant in order to sustain economic viability. As a result, all assets constructed or acquired using these funding mechanisms need to be recorded as plant in service and the associated depreciation expense needs to be recovered in rates. A return on the resulting rate base also needs to be included in rates, and all funds accumulated under this method must also be recognized as a component of the capital structures for purposes of calculating a cost of capital and the rate of return on that rate base.

   This regulatory treatment is necessary considering the plight of utilities. Water and sewer utilities are heavily regulated by many federal, state and even local agencies in rapidly changing times where facilities constructed to meet certain standards could become obsolete very rapidly. For example, the arsenic level in drinking water changed from 50ppb to 10ppb requiring many water utilities to install expensive arsenic treatment. Another example is the AZPDES program where once ADEQ took primacy it established discharge limits below the water quality standards that were imposed by the EPA, which could require wastewater reclamation plants to install treatment facilities. Yet another example is the possibility of maximum contaminant levels being established in the drinking water for perchlorates, cryptosporidium and other constituents which could require water systems to treat the drinking water. Changes in environmental requirements together with rapidly rising replacement and operating costs places constant pressure on the utility's ability to recover its costs. When combined with the regulatory lag and the expenses involved with a rate case and the thin returns on equity, it is necessary to allow the costs of plant constructed or acquired by these financing methods to be recovered in rates.

As for the specific regulatory treatment, depreciation expense must be allowed on assets acquired by these funding methods because this is the source of funds for acquiring replacement plant. These assets must also be allowed in the rate base with an equity component in the capital structure because of the cushion provided in rates for changing regulations, rising costs and regulatory lag.

2. The Robson-owned utilities have never been supportive of the Commission's desire to require the use of Advances in and of Construction ("AIAC"). Depending on the demographics of the service area and the utility's financial condition, AIAC's may be appropriate in certain circumstances, but they should never be required. Because they should never be required, the Robson-owned utilities do not support any benchmarks standards, minimums or maximums for AIAC's in the capital structure. Instead, each financing matter should be reviewed on a case by case basis to see if the use of AIAC's is appropriate.

3. The Robson-owned utilities have never understood the value that contributions construction ("CIAC") provide. There is no cost recovery in rates associated with CIAC's and they therefore have no value to the utility other than a cost fee acquisition, which is not in the best long term interest of the utility. Again, CIAC's should be used very sparingly, but standards, minimums or maximums should never be imposed as all financing needs to be viewed on a case by case basis.

4. The most appropriate and economical capital structure for a new water and wastewater facility also needs to be reviewed on an individual basis. Generally, the initial capital structure should be equity-oriented because a new utility needs equity capital and without customers it would not have a way to repay debt.

An original and 13 copies submitted.

Sincerely,

Jim Poulos

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